

ORIGINAL



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
MARC SPITZER
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR AN EMERGENCY
INTERIM RATE INCREASE AND FOR
AN INTERIM AMENDMENT TO
DECISION NO. 67744

DOCKET NO. E-01345A-06-0009

NOTICE OF FILING OF THE
SUMMARY OF THE DIRECT
TESTIMONY OF KEVIN C. HIGGINS
ON BEHALF OF PHELPS DODGE
MINING COMPANY AND
ARIZONANS FOR ELECTRIC
CHOICE AND COMPETITION

Phelps Dodge Mining Company and Arizonans for Electric Choice and
Competition, through undersigned counsel, hereby provide Notice of Filing the Summary
of Direct Testimony of their witness, Kevin C. Higgins, in the above-captioned docket.

RESPECTFULLY SUBMITTED this 17th day of March 2006.

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Docket No. E-01345A-06-0009

Summary of the

on behalf of

Arizonans for Electric Choice & Competition

March 17, 2006

SUMMARY OF KEVIN C. HIGGINS DIRECT TESTIMONY

My testimony addresses APS's request for an emergency interim rate increase and recommends adjustments to the Company's proposal that I believe are necessary to ensure results that are just and reasonable.

In my opinion, it is appropriate to allow an emergency interim rate increase sufficient to permit APS to attain a FFO/Debt Ratio of 18 percent in 2006. I calculate that this ratio can be attained through an emergency rate increase of \$126 million in calendar-year 2006, which is 55.6 percent of the emergency increase requested by APS. If implemented on May 1, 2006, this incremental revenue can be collected with an emergency rate increase of approximately 7.8 percent (as measured against rates exclusive of PSA charges). In making this calculation, I have assumed that the Step I PSA Surcharge requested by APS on February 2, 2006, is implemented on May 1, 2006, an action that I believe is appropriate under the PSA mechanism

I disagree with APS's proposal to establish a new base energy rate in this proceeding, as this would allow APS to avoid having to absorb its 10 percent share of the cost differential between the current base energy rate and its new proposed energy rate. Instead, the base energy rate should remain at the level established in the last general rate case, and any revenues collected from the emergency surcharge should be applied as a credit against the PSA Annual Tracking Account. In this way, the surcharge could be set to recover the 90 percent cost-share assignable to customers, with the remaining 10 percent assigned to APS per the PSA mechanism. The new base energy rate would then be established in the upcoming general rate case.

The flat, cents-per-kWh design of APS's proposed interim surcharge is not reasonable in the context of an emergency filing. Although APS has advertised its proposed increase as being "14 percent", the design of the Company's proposal would actually raise rates for many industrial customers by well over 20 percent. In my opinion, it is inappropriate in the context of an emergency rate filing – with its limited record and restricted opportunity for analysis – to levy disproportionate increases on different customer groups. If an emergency increase is granted, the only appropriate rate design would be an equal percentage increase for all customer groups, which consistent with other interim increases documented in my testimony. This can be achieved through an equal percentage surcharge on total customer bills, which is the approach I recommend here.

In summary, I believe an emergency rate increase is in the public interest, but should be modified in four important ways from what APS has proposed:

- The emergency increase should be smaller than APS has requested;

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- The base energy rate should **not** be changed until the resolution of the general rate case;
- The emergency surcharge should be levied on an equal percentage basis; and
- Any revenues collected from the emergency surcharge should be applied as a credit against the PSA Annual Tracking Account.